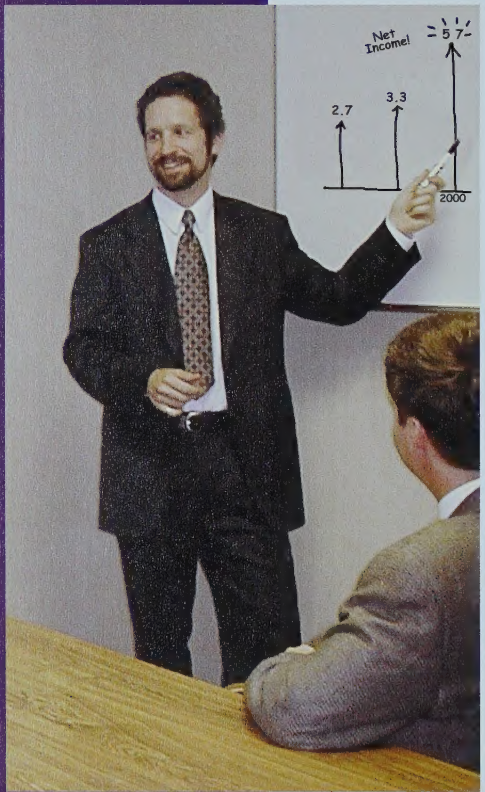
Apple Bar Coding/Auto-ID/Point-of-Sale **Digital Video** Internetworking **RAID** Unix **Wireless**

2000 Annual Report

EMJ DATA SYSTEMS LTD.

Distributing Niche-Market Products Makes Us Different.

Message from the President



Jim Estill, President and CEO

I am a business optimist and I look at the bright side of things. There are many businesses of many different sizes. There is a right business size for everyone.

I like the fact that most of our competitors are several times our size or many times smaller than us. By focusing on a specialty - our specialty being that of a niche-products distributor - the more value we offer to both our customers and our manufacturers.

EMJ is small compared to the U.S.-based distribution giants that sell billions of dollars worth of product. We use our small size to find and exploit niche markets that they cannot. We find and create markets, and then we sell the products we distribute into those markets. That makes us an active distributor. The larger distributors tend to be order takers. This is a different business model than what EMJ offers. Many of our manufacturers realize this and are willing to pay us for it.

We use our smaller size to do things faster. We are able to develop a personal rapport with our customers. When opportunities that require more flexibility arise, we can react quickly. Decisions don't end up going from one committee to another - the decision is made, and it's implemented. We love change.

We tend to pick niches that are a bit more technical or complex, and that requires more product knowledge. We have a good training culture here at EMJ; our sales and technical people keep up-to-date on new products and their features. We say to our customers, "Big enough to serve you - small enough to care".

Because we offer fewer product lines, our focus on knowing our products allows us to be good at these niches. EMJ is also large enough to add real value for many manufacturers. If EMJ decides to distribute a manufacturer's products, we can make a real difference to that manufacturer. Our strong balance sheet allows us to invest what is required to make a product line a success.

At EMJ, we use our technical and market insights to allow us to invest time, marketing, distribution and resources in areas that have proven profitable for us. In fiscal 2000, our profit from our incubator activity was $1.3 million.

Throughout this report you will see references to EMJ's focus on the long term. We have made an operating profit for 84 consecutive quarters. We have a strong and profitable corporate culture. We have built a very strong balance sheet and operate on proven business fundamentals. This allows us to invest where required and to act quickly, which is a necessity in this industry. We have built a strong reputation in the computer distribution field. We are


Marlene O'Grady, Ontario Sales Manager (right) speaks with EMJ sales representative Joel Turcotte.

Leadership:

Jim Estill has been the President and CEO of EMJ Data Systems Ltd. since its inception in 1979.

From left to right: Rosemary Langel, Vice President, Finance, Corporate Secretary and Controller; Alexandra Klein, Vice President, Purchasing; Raymond Soucy, Vice President, Sales and Product Management; Jim Estill, President and CEO; Glen Estill, Vice President and CFO.

known to be a good company to do business with - people want to deal with us. Many of our people have been with EMJ for years. This stability of people helps with knowledge on products, customers and suppliers. People like to work for EMJ because of our ethics, reputation and the fact we are in a very exciting field.

I am growth-oriented as long as it is done profitably. Growth is motivational to my people and myself. It's exciting to work for a company that is growing. EMJ has grown in 19 out of the past 21 years.

Earlier in 2000, the Y2K fear depressed sales. It was our profit oriented corporate culture that allowed us to still do well throughout this period. Later in our fiscal year, profitable growth was possible, so our growth culture kicked in. Fourth quarter sales were up 27%.

By balancing our strong financial health and our ability to adapt swiftly, we will endeavour to grow and be profitable, for ourselves and for you, our shareholders.

Thank you for investing in EMJ.

Jim Estill, President and CEO,
EMJ Data Systems Ltd.

Contents:

Highlights of the year

Stability:

EMJ's strong balance sheet and financial stability allows the Company to continue its profitable growth.

Incubator Companies: Including Aztech New Media, all valued at zero on the balance sheet.

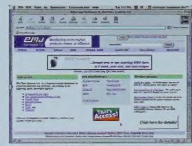
Apple® Learn and Earn: Eighty of EMJ's employees take part in Apple Computer's web-based Learn and Earn Program.

EMJ's Customer Pickup area is now larger, with displays and literature available.

A **Demo Room** has been constructed in the customer pickup area so EMJ's sales team can give live demonstrations of products to resellers.

Digital Video is now bigger than ever, and EMJ has everything resellers need to confidently promote Digital Video solutions.

A new **EMJ Digital Video** Website has been launched!
The web address is **www.emj.ca/dv**



Online Ordering Continues to Grow: The total sales EMJ has received from its web-based ordering system have increased 65% compared to the previous year.

With the increased number of resellers using EMJ's site, a simplified redesign is in progress. The redesign will make it easier and faster for resellers to find and purchase products over EMJ's web site.

Bar Coding/Auto-ID/Point-of-Sale Focus at EMJ:

Recently Symbol Technologies, leaders in Point-of-Sale products, visited EMJ.
A transport truck that folds out to three-times its width was filled with Symbol's latest technologies beautifully displayed. EMJ hosted resellers to a lunch and a browse through the truck. This was an incredibly successful day, and showed resellers that EMJ's Point-of-Sale focus is strong.

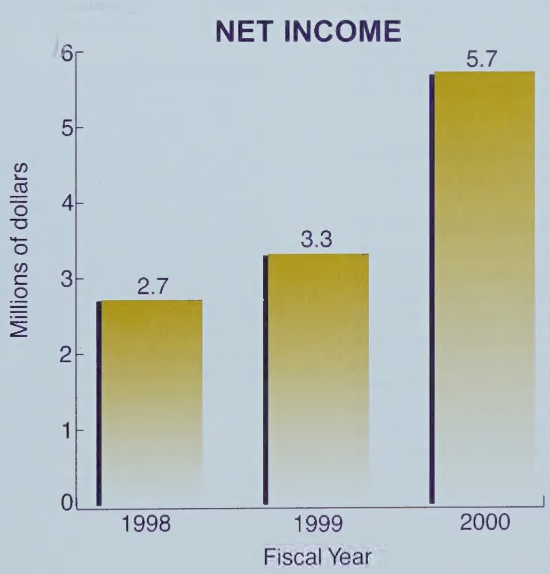
emj America Inc.℠

EMJ America, located in Apex, NC, continues to be a profitable and growing contributor to EMJ's growth and long-term profitability, thanks to its efforts in embedded systems and Linux software.

Financial Highlights

Year Ended July 31, 2000 and 1999
Consolidated Financial Data
($000's, except number of shares and per share data)

OPERATING RESULTS	2000	1999
Sales	**166,365**	162,369
Gross margin	**15,109**	15,189
Income from operations before tax	**5,209**	5,193
Net income	**5,685**	3,315
Earnings per share	**0.75**	0.45
Fully diluted earnings per share	**0.74**	0.45
FINANCIAL POSITION		
Working capital	**14,842**	7,515
Total assets	**52,907**	40,804
Shareholders' equity	**19,586**	14,325
Weighed average number of shares	**7,576,578**	7,306,563
Total number of shares outstanding at July 31	**7,665,619**	7,411,819



Net income increased 71.5%

Shareholders' equity increased 36.7%

Profitable Growth:

EMJ has an operating profit for the past eighty-four consecutive quarters.

EMJ Specialties:

Apple and Apple 3rd Party Products

Bar coding/Auto-ID/ Point of Sale

Digital Video

Internetworking

RAID

Unix

Wireless Technologies

Specialization:

EMJ specializes in supplying products for profitable and growing niche markets.

EMJ's Unique Positioning in the Canadian Marketplace

About EMJ

EMJ is a distributor, or wholesaler, of computer products and peripherals in Canada. The Company sells these products to computer dealers, system integrators and resellers. A reseller is defined as a business that purchases products from a distributor and in turn resells those products to a business, government department, or individual (the end-user or user). This is commonly referred to in this industry as the reseller channel. The distributor 'channels' product from the manufacturer to the reseller, who in turn sells to the end-user. EMJ does not sell products directly to end-users.

For several years, EMJ has made it a priority to specialize in certain market areas. The Company selects these specialties based on the position of the specialty in the marketplace (before it becomes a commodity product) and the margin opportunities involved. The specialties EMJ selects are still relatively new, growing, and profitable. Other larger computer distribution companies in Canada offer a much larger range of commodity products to their customers. EMJ chooses not to be a competitor in that marketplace.

The specialties EMJ is currently focused on are the following:

Apple/Apple 3rd Party Products

Since 1992, EMJ has been Apple Canada Inc.'s first Canadian distributor. EMJ is one of two Apple distributors in Canada. Our experience and knowledge is unsurpassed. Apple has grown from their Apple Classic to their popular iMac and G4 Computers. EMJ has steadily been adding Apple 3rd party manufacturers to its lineup, including AGFA and most recently Adobe Systems. Apple 3rd party manufacturers recognize EMJ's history in supplying Apple computer products to Canadian resellers, and see success in teaming with the Company.

Digital Video

A relatively new specialty for EMJ, digital video is gaining more popularity in the marketplace and among resellers in Canada. Apple's recent success in distributing its iMac computer with iMovie software is bringing digital video technology to the masses, and is obviously raising awareness of digital video. While EMJ supplies these Apple products to its resellers, it also targets higher-end markets, including resellers to corporate, broadcast and graphics markets, with high-performance digital video hardware and software. Additions to the Company's manufacturer lineup, include JVC Professional, Pinnacle Systems, Zapex Technology and Canon DV, bringing broadcast-quality hardware and software - for pre- and post-production - to those resellers. What's more, the pricing of a digital video solution based on a computer, rather than the traditional specialized-hardware method, brings significant savings to the user, while resellers enjoy revenue from a new market niche.

Internetworking

The Internet continues to be a topic for discussion, among investors, users and news organizations. The Internet continues to grow and continues to attract new users. It's a community of individuals, organizations, and businesses. It is the growing aspect of the Internet that actually creates opportunities for EMJ and its Internetworking resellers. As more users access the Internet, they want to do so as fast as they can. This means faster routers, hubs, gateways and firewalls. It also means an increased concern about security and reliability, as the infamous ILOVEYOU e-mail virus illustrated. EMJ's Internetworking manufacturers, including Cisco Systems, D-Link, eSoft and others are introducing products for resellers to offer faster, more secure access to the Internet. The Company sees no slowdown in the demand for such products.

"Distributing Niche-Market Products Makes Us Different."

Bar Coding/Auto ID/Point of Sale

By now, everyone is familiar with bar codes; they are on almost every product we purchase. It's the amalgamation of bar codes and point of sale technology that is driving resellers to offer this solution to their customers. The two technologies offer a superior method of tracking, categorizing and predicting sales of products. The inexpensive personal computer is spearheading this market penetration, affording both small and large businesses the opportunity to operate their businesses more profitably. A reseller's experience with personal computers, combined with Point of Sale hardware including bar code scanners, cash drawers, touchscreen displays, and receipt printers, offers a price-competitive solution to previous, proprietary cash registers. Recently, EMJ has added a Symbol Technology product specialist to its staff to assist resellers in building the right Symbol bar coding and point of sale solution for its resellers.

RAID (Redundant Array of Inexpensive Disks)

No individual or company wants to lose information because of one hard drive failure. In fact, by combining several hard drives in tandem, having them store information on more than one drive, helps to prevent unrecoverable data loss. More and more users are using RAID solutions to protect their data from corruption and/or loss. With the advent of new storage technologies such as the Storage Area Network (SANs) and Network Attached Storage (NAS), RAID is becoming the standard method of storing data. EMJ manufacturers, including Fujitsu, MicroNet and DPT, are leaders in bringing reliable RAID solutions to resellers and users.

Unix

Although Microsoft Windows is a market leader, Unix is still the preferred operating system of many businesses. Some corporations have invested significant resources in their Unix operating systems, and are reluctant to change. Unix also has a long history, with a stable, reliable, scaleable and proven technology. EMJ has been the #1 distributor of SCO Unix in Canada for the last four years. The Company's sales and technical support staff know the product; that's a huge advantage for a Unix reseller who needs pre- and post-sales support. EMJ also carries other manufacturers with Unix-compatible products, including Boundless, Esker, Microlite and VSI-FAX, among others, who continue to provide high-performance, third-party complementary products to SCO Unix and to EMJ resellers.

Wireless

Wireless is EMJ's newest specialty. Wireless technologies remove the cable connecting two devices that 'talk' to each other - notably the networking cable or the telephone wire. Wireless technologies are becoming increasingly important, especially since cellular phones are more or less commonplace. Now, users are looking for wireless technologies to give them access, including Internet access, to information wherever they are. Also, resellers are looking to wireless technologies to connect users in a Local Area Network (LAN) or Wide Area Network (WAN). The Company carries wireless products from Apple, BreezeCOM, Cisco Systems and Symbol Technologies, and expects to expand its wireless manufacturer listing.

Embedded Systems

EMJ America has seen a substantial increase in demand for embedded systems products. EMJ America's product offering includes single-board computers, multiport serial boards, flash memory, PC Card devices, PC/104 modems, enclosures and DSP boards. EMJ America's operations are a positive contribution to the overall growth of the Company.

By focusing on these specialties, EMJ carves its own niche in the marketplace; a niche that is profitable for both the Company and its shareholders.

New Manufacturers:

- 01 Communiqué
- AGFA
- Adobe Systems Inc.
- Canon DV
- Castlewood Systems
- GeeThree.com
- Harman Multimedia
- Hauppauge/EskapeLabs
- iProof Systems
- Intego Inc.
- Lexmark
- IREZ Video products
- Media 100
- MediaFORM
- MicroNet
- MicroTouch
- Minolta/QMS
- Noble Security Systems
- Nova Development
- QPS Inc.
- Ratoc
- Thursby Software Systems
- XANTÉ

Quality:

EMJ's PC manufacturing and configuration centre is ISO 9002 certified.

Management's Discussion and Analysis

The following discussion of the results of operations and financial condition for the year ended July 31, 2000 should be read in conjunction with the consolidated financial statements and accompanying notes.

OVERVIEW

EMJ Data Systems Ltd., a distributor of computer products and peripherals, specializes in high-performance products for Apple, Digital Video, Internetworking, Bar Coding/Auto-ID/Point of Sale, RAID, Unix, and wireless technologies. The Company has continued developing its core business by signing new product lines and increasing its market share with existing lines.

EMJ's net income for fiscal 2000 increased by 71.5% to $5.7 million, or $0.75 cents per share. Sales growth in the first half of the year was adversely affected by product shortages and buying slowdowns relating to the year 2000 issue but recovered strongly in the latter months, particularly in the fourth quarter reporting a 27.3% sales growth.

EMJ garnered much attention in its second quarter with its announcement that it had developed a new version of its Linux kernel: white dwarf linux, specifically designed for use in embedded applications. This Linux is less than 10 megabytes as compared to most Linux versions that are 90 – 100 megabytes. The major advantage of Linux in embedded applications, apart from the cost, is that Linux is the operating system of the Internet, so any company that wishes to have easy access to their products on the Internet will find it significantly easier using EMJ's embedded Linux. Although embedded systems are currently a small portion of the Company's business, EMJ's Linux version is being developed further with the intent of expanding its current application.

The development of an active incubator business with small investments in numerous companies has proven successful for EMJ in fiscal 2000 generating net gains of $1.3 million. During the year, the Company continued to acquire equity interests or warrants in a number of other small innovative firms. At July 31, 2000, the book value of these investments is nil.

RESULTS OF OPERATIONS

Strong sales growth in EMJ's fourth quarter offset slower growth in the earlier three quarters resulting in an increase in sales for the 2000 fiscal year of $4.0 million (or 2.5%) to $166.4 million. Lower than expected sales volumes in the October to April period resulted from lower corporate buying as Year 2000 upgrades were implemented and the completion of a major government contract, but recovered in the last three months of the fiscal period. Weakness in a major competitor provided EMJ with an opportunity to sign two major product lines – AGFA and Adobe, which complement the Apple business very well, in addition to gaining significant market share on product lines carried by both EMJ and this competitor. Sales increase was modest in Canada but stronger in the U.S., with increases of $2.8 million or 1.8% and $1.2 million or 10.5% respectively. Gross margin decreased slightly to 9.1% of sales or a decrease of $80,000, primarily as a result of sales product mix.

The Company's subsidiary recovered its Internet related expenses as part of the management service agreement completed on the sale of its internet division in 1998. This recovery and the write down of a warranty provision originally set up to service issues relating to the Company's acquisition of Sidus Systems Inc. ("Sidus") in 1999 offset increased bad debt expense in the current year, resulting in a net decrease in selling, general and administrative expense of $316,000 or as a percentage of sales, a decrease from 5.7% to 5.4%.

Interest expense for the year was $997,000 or 0.60% of sales compared to $777,000 or 0.48% of sales for the previous fiscal year, primarily as a result of higher interest rates during the year and special inventory purchases made in late June partially financed by a temporary line of credit established for this purpose.

In anticipation of an increase in sales volume, the Company made special inventory purchases in late June resulting in an increase in inventory of $13.7 million to $24.8 million in the current year and increasing the Company's bank indebtedness by $10.7 million to $26.7 million. The Company's sales order backlog at July 31, 2000 was $14.9 million compared to $3.3 million the previous year, which should result in inventory and debt levels declining to normal levels in the near term.

During the year, EMJ acquired equity interests or warrants in a number of small innovative firms – an "incubator" strategy with the intent of being involved in the development of these firms at a very early stage with minimal investment. In 2000, EMJ's incubator strategy resulted in net gain on sale of investments of $1.3 million, or $0.18 per share, The gain resulted from the sale of the Company's investment in a company, previously written off, of $2.0 million and a write-down of $650,000 to nil, relating to the carrying value of loans to and investments in other companies. This compares to $225,000, or $0.03 per share, for the previous year.

The Company's effective income tax rate decreased to 13.0% from 38.8% largely as a result of utilization of income tax benefits relating to its acquisition of Sidus the previous year. During the year, the income tax benefit recognized on the balance sheet at the time of acquisition was reduced by $566,000. Income tax benefits in the amounts of $1,993,000 and $311,600

Management's Discussion and Analysis

not previously recognized were utilized to reduce taxes otherwise payable for 2000 and 1999, respectively. The tax losses remaining are in excess of $18.0 million. Any unused portion will expire in the 2003 and 2004 taxation years.

Earnings per share for fiscal 2000 were $0.75 compared to $0.45 for 1999, an increase of 66.7%. Fully diluted earnings per share for the current year were $0.74. The effect of the exercise of stock options and share purchase warrants was anti-dilutive for fiscal 1999.

ACQUISITIONS AND DIVESTITURES

The Company undertook no acquisitions or divestitures during the current year.

On April 1, 1999, the Company purchased 100% of the outstanding common shares of Sidus, a company which had filed for protection under the Companies' Creditors Arrangement Act on January 20, 1999. Sidus was engaged in the manufacture and distribution of private label computers, and had strong government sales, which complements EMJ's operation. The acquisition was financed by way of a non-interest note payable of $1.6 million and the issuance of 168,247 EMJ common shares in exchange for Sidus common shares. In connection with the acquisition, the Company advanced an amount of $400,000 to the Monitor, which was repaid on August 3, 1999 together with accrued interest of $17,000. Sidus was amalgamated with EMJ on August 1, 1999.

RISKS AND UNCERTAINTIES

The Company operates in a highly competitive market where many of the Company's competitors are larger and have greater financial resources. The Company reduces the risk of technological obsolescence by maintaining a high rate of inventory turnover and ensuring that it has the ability to return unsold inventory in certain circumstances to its suppliers and providing for price protection in some of its supplier agreements.

Risk management of accounts receivable involves establishing appropriate credit granting procedures to minimize the impact of bad debts especially during times of economic downturn when the credit worthiness of customers may be more strongly affected.

LIQUIDITY AND CAPITAL RESOURCES

Increased inventory levels from special purchases made in June were partially financed by a temporary line of credit established for this purpose for $7.0 million in Canadian currency expiring September 30, 2000. Inventory increased $13.7 million to $24.8 million from $11.1 million. Bank indebtedness increased $10.7 million to $26.7 million from $16.0 million. The Company has lines of credit in the amount of $25.0 million in Canadian currency or the U.S. dollar equivalent and the U.S. subsidiary has a line of credit in the amount of $1.0 million in U.S. currency. The Company takes advantage of lower interest rates offered on Bankers' Acceptances to finance its operations.

Working capital, defined as current assets less current liabilities, increased by $7.3 million. The increase can be attributed to an increase in accounts receivable, inventory and bank indebtedness of $1.2 million, $13.7 million and $10.7 million respectively, a decrease in accounts payable of $1.6 million and repayment of the $1.6 million note payable relating to the 1999 Sidus acquisition.

Cash used in operating activities was $11.6 million for the current fiscal year compared to cash provided by operating activities in 1999 of $1.4 million.

Cash provided by investing activities was $2.9 million compared to $1.6 million the previous year. Proceeds received on sales-type leases of $1.3 million and on sale of investments of $2.0 million were the primary sources of funds. Cash in the amount of $650,000 was used to purchase investments. In 1999, the primary source of cash from investing activities was proceeds received on sales-type leases of $1.9 million.

Cash provided from financing activities was $7.4 million compared to cash applied in 1999 of $2.2 million. In fiscal 2000, cash was provided from increased bank loans of $9.4 million and the exercise of stock options by employees of $800,000. Cash was used to pay dividends in the amount of $1.2 million and repayment of a note payable of $1.6 million from the Sidus acquisition in 1999. The increase in dividends paid from $880,000 to $1.2 million for fiscal years 1999 and 2000 respectively, was partially due to the increase in the Company's annual dividend rate per common share from $0.12 to $0.16 for 1999 and 2000 respectively, and the issuance of an additional 253,800 common shares from Treasury to employees exercising their stock options.

The exercise of stock options generated proceeds of $800,000. The Company currently has 336,300 stock options outstanding, representing 4.4% of the common shares issued and outstanding, of which 165,566 were exercisable at July 31, 2000.

The Company expects that cash flow generated from operations and bank lines will be sufficient to meet growth in working capital requirements in the next year.

Management's Report

The management of EMJ Data Systems Ltd. is responsible for the preparation of all information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates. Financial information included elsewhere in this report is consistent with that in the consolidated financial statements.

Management is responsible for the integrity and objectivity of the consolidated financial statements. A system of internal controls, to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded, is maintained by management.

The Company's independent auditors, appointed by the shareholders, have prepared their report which outlines the scope of their examination and their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee of the Board of Directors is comprised of a majority of directors who are not employees. The Committee meets with management and the auditors to discuss significant accounting, reporting and internal control matters and reviews and recommends the consolidated financial statements to the Board for approval.

Jim Estill
President and Chief Executive Officer

Glen Estill
Vice President and Chief Financial Officer

September 1, 2000

Auditors' Report

To the Shareholders of
EMJ Data Systems Ltd.

We have audited the consolidated balance sheets of **EMJ Data Systems Ltd.** as at July 31, 2000 and 1999 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Kitchener, Canada,
September 1, 2000.

Consolidated Balance Sheets

As at July 31

($000s)	2000	1999
ASSETS		
Current		
Accounts receivable		
Trade	**19,896**	19,025
Other	**941**	579
Inventory	**24,766**	11,091
Prepaid expenses	**375**	712
Loans receivable *[note 12]*	**—**	437
Benefit of income tax losses	**535**	295
Investment in sales-type leases - current portion *[note 3]*	**1,269**	1,492
Total current assets	**47,782**	33,631
Benefit of income tax losses - net of current portion	**1,711**	2,517
Investment in sales-type leases - net of current portion *[note 3]*	**49**	1,084
Capital assets *[note 5]*	**3,332**	3,566
Investments *[note 6]*	**33**	6
Total assets	**52,907**	40,804

	2000	1999
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 7]*	**26,688**	15,995
Accounts payable and accrued charges	**5,821**	7,401
Income taxes payable	**431**	1,120
Notes payable *[note 12]*	**—**	1,600
Total current liabilities	**32,940**	26,116
Long-term debt *[note 8]*	**381**	363
Shareholders' equity		
Share capital *[note 9]*	**7,171**	6,371
Share purchase warrants *[note 9]*	**344**	344
Retained earnings	**12,071**	7,610
Total shareholders' equity	**19,586**	14,325
Total liabilities and shareholders' equity	**52,907**	40,804

See accompanying notes

On behalf of the Board:

Director

Director

Consolidated Statements of Income and Retained Earnings

Year ended July 31

($000s except per share figures)	**2000**	1999
SALES	**166,365**	162,369
Cost of goods sold	**151,256**	147,180
Gross margin	**15,109**	15,189
EXPENSES		
Selling, general and administrative	**8,903**	9,219
Interest, net	**997**	777
	9,900	9,996
Income from operations	**5,209**	5,193
Gain on sale of investments, net *[note 6]*	**1,327**	225
Income before provision for income taxes	**6,536**	5,418
Provision for income taxes *[note 10]*	**851**	2,103
Net income	**5,685**	3,315
Retained earnings, beginning of year	**7,610**	5,193
Dividends on common shares	**(1,224)**	(880)
Repurchase and cancellation of common shares *[note 9]*	**—**	(18)
Retained earnings, end of year	**12,071**	7,610
Earnings per share *[note 11]*	**$0.75**	$0.45
Fully diluted earnings per share *[note 11]*	**$0.74**	$0.45

See accompanying notes

Consolidated Statements of Cash Flows

Year ended July 31

($000s)	2000	1999
OPERATING ACTIVITIES		
Net income	**5,685**	3,315
Adjustments for non-cash items:		
Amortization	**288**	386
(Gain) on sale of investments, net	**(1,327)**	(225)
	4,646	3,476
Net change in non-cash working capital components *[note 13]*	**(16,274)**	(2,057)
Cash (applied to) provided by operating activities	**(11,628)**	1,419
INVESTING ACTIVITIES		
Capital asset additions, net	**(54)**	(173)
Proceeds received on sales-type leases	**1,258**	1,943
Proceeds on loans receivable	**412**	—
Purchase of investments	**(650)**	—
Proceeds on sale of investments	**1,977**	403
Acquisitions	—	(182)
(Advance of) loans receivable	—	(437)
Cash provided by investing activities	**2,943**	1,554
FINANCING ACTIVITIES		
Increase (decrease) in bank loan	**9,387**	(805)
Repayment of note payable	**(1,600)**	(625)
Issuance of common shares	**800**	3
Dividends paid	**(1,224)**	(880)
Other	**16**	18
Repurchase and cancellation of common shares	—	(25)
Deferred income tax benefits relating to share issue costs	—	72
Cash provided by (applied to) financing activities	**7,379**	(2,242)
Net cash (applied) provided during year	**(1,306)**	731
(Book overdraft), beginning of year	**(937)**	(1,668)
(Book overdraft), end of year	**(2,243)**	(937)

See accompanying notes

Notes to the Consolidated Financial Statements

July 31, 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by management, in accordance with accounting principles generally accepted in Canada and are within the framework of the significant accounting policies summarized below:

Principles of consolidation

The consolidated financial statements include the accounts of EMJ Data Systems Ltd. and its subsidiaries, hereinafter referred to as the "Company". All significant intercompany transactions have been eliminated on consolidation.

Foreign currency translation

Foreign currency monetary assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the year-end. Non-monetary assets are translated at the exchange rates prevailing when the assets were acquired. Translation gains and losses are included in the statement of income.

The Company follows the temporal method for translating the accounts of its foreign subsidiaries which are integrated operations.

Inventory

Inventory is valued at the lower of cost, determined on a first-in, first-out basis, or net realizable value. Net realizable value is defined as selling price less costs to sell.

Investments

The Company accounts for investments in which it has significant influence on the equity basis. Other investments are recorded at cost less write-downs to reflect permanent impairment.

Capital assets and amortization

Capital assets are recorded at cost and are amortized using the following annual rates:

Buildings	4% declining balance
Office furniture and equipment	20% - 50% declining balance

These rates are expected to amortize the cost of the assets over their estimated useful lives.

Income taxes

The Company accounts for income taxes using the deferral method of income tax allocation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES cont'd

Use of estimates

In preparing these consolidated financial statements, in accordance with accounting principles generally accepted in Canada, management was required to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Stock-based compensation plans

The Company has a stock-based compensation plan as described in note 9. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

Revenue recognition

Revenue from product sales and services is recognized at the time goods are shipped or services are rendered to customers. For sales-type leases, sales revenue is recognized at the time of shipment of product to the customer. Finance income related to sales-type leases is recognized in such a way as to produce a constant rate of return on the residual investment in the lease.

2. FINANCIAL INSTRUMENTS

The Company's trade accounts receivable relate primarily to product sales to a diverse range of customers, mainly throughout North America. Credit limits, ongoing credit evaluation and account monitoring procedures are utilized to minimize risk of loss.

A portion of the accounts receivable and accounts payable are denominated in U.S. dollars. The Company also maintains U.S. dollar denominated debt. The Company monitors exchange rates on an ongoing basis, but currently does not utilize derivative instruments. Approximately 66% [36% - 1999] of the Company's accounts payable balance is denominated in U.S. dollars and approximately 9% [7% - 1999] of the Company's accounts receivable balance is denominated in U.S. dollars.

The fair values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and income taxes payable, approximate recorded amounts because of the short period to maturity of these instruments.

Sales-type leases and long-term debt are valued at interest rates approximating current interest rates for similar instruments. Accordingly, the fair value of the sales-type leases and long-term debt is not materially different from the carrying value.

3. INVESTMENT IN SALES-TYPE LEASES

($000s)	2000	1999
Minimum lease payments receivable and estimated residual value	**1,370**	2,734
Less unearned income	**52**	158
	1,318	2,576
Current portion	**1,269**	1,492
	49	1,084

During the year, finance income of $125,275 [$254,217 - 1999] was earned related to the above leases. The interest rates inherent in the leases range from 5.75% to 7.60%. The leases mature between April 2001 and July 2002.

4. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

($000s)	2000	1999
Sales	**83**	30
Purchases	**2,694**	2,380

Sales and purchases include transactions with companies in which the controlling shareholders have an investment and that are subject to their significant influence. These transactions took place under normal trade terms. Included in accounts receivable at July 31, 2000, is $4,705 [$56,642 - 1999] due from related companies. Included in accounts payable is $125,733 [$11,326 - 1999] due to related companies. The amounts were incurred in the normal course of business activities.

5. CAPITAL ASSETS

Details of the capital assets are:

	2000		1999	
($000s)	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Buildings	**3,247**	**1,051**	3,229	960
Office furniture and equipment	**2,052**	**1,398**	2,012	1,201
	5,299	**2,449**	5,241	2,161
Less accumulated amortization	**2,449**		2,161	
	2,850		3,080	
Land	**482**		486	
Net book value	**3,332**		3,566	

6. INVESTMENTS

In fiscal 2000, the Company sold its investment in a company, which it had previously written off, resulting in a gain of $1,977,000. The Company also wrote-down the carrying value of loans to and investments in other companies to nil, resulting in a loss of $650,000. The Company's ownership in these companies is 10% or less.

In fiscal 1999, the Company sold its remaining investment in another company resulting in a gain of $391,000. In fiscal 1999, the Company also wrote-down the carrying value of its investment in another company to nil, resulting in a loss of $166,000.

7. BANK INDEBTEDNESS

The Company has lines of credit in the amount of $25,000,000 in Canadian currency or the U.S. dollar equivalent and its U.S. subsidiary has a line of credit in the amount of $1,000,000 in U.S. currency, with banks in Canada and the United States. The bankers' acceptances outstanding at July 31, 2000, expire between August 2000 and September 2000. In addition, a temporary line of credit for $7,000,000 in Canadian currency expiring September 30, 2000, was provided to partially finance a special purchase of inventory from a supplier. General security agreements on all assets, except real estate, have been provided as collateral. The Company is required to maintain certain financial covenants.

	2000		1999	
($000s)	U.S.	Canadian	U.S.	Canadian
Canadian dollar loan, interest at bank prime [7.5% at July 31, 2000; 6.25% at July 31, 1999].		**1,869**		3,995
U.S. dollar loan, interest at U.S. base rate [10% at July 31, 2000; 8.75% at July 31, 1999].	**762**	**1,126**	–	–
U.S. dollar loan, interest at U.S. bank prime [9.5% at July 31, 2000; 8.0% at July 31, 1999], plus 1/2%.	**469**	**693**	–	–
Bankers' acceptances, interest at bank prime acceptance fee [6.99% at July 31, 2000; 5.75% at July 31, 1999], less 1/4%.		**23,000**		12,000
		26,688		15,995

The Canadian and U.S. dollar loans includes book overdraft, in the amount of $2,243,000 [$937,000 in 1999], which consists of cheques issued that have not cleared the bank in excess of bank account balances.

Notes to the Consolidated Financial Statements (continued)

8. LONG-TERM DEBT

Long-term debt includes an amount of $381,000 [$363,000 in 1999] being the estimated present value of non-interest bearing debt of $2,100,000, that is repayable on October 31, 2037. Interest in the amount of $18,000 was imputed on this debt during 2000 [$19,000 in 1999] at a rate of 5%. This amount is a portion of the debt obligations assumed upon acquisition of a company in a prior year.

9. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common, first preference and second preference shares. The rights and restrictions attached to the preference shares are determined by the Board of Directors prior to issue.

The changes in issued common share capital are as follows:

(000s)	$	Shares
Balance, July 31, 1998	**5,845**	**7,251**
Issued for cash under stock option plan	**3**	**1**
Issued on acquisition	**530**	**168**
Redemption and cancellation of shares	(7)	(8)
Balance, July 31, 1999	**6,371**	**7,412**
Issued for cash under stock option plan	**800**	**254**
Balance, July 31, 2000	**7,171**	**7,666**

The Company has a stock option plan for directors, officers, employees and certain other eligible persons. The total number of shares set aside under options to eligible persons may not exceed 1,079,437 common shares. The option exercise price cannot be lower than the market price of the common shares at the date the option is granted. The exercise prices of common shares under options outstanding at July 31, 2000 range from $3.00 to $10.00 per share [weighted average price of $5.45 per share]. The options expire on various dates to December 21, 2003.

The summary of the Company's stock option activity for the years ended July 31, 2000 and 1999 is as follows:

	2000	Weighted-average exercise price	1999	Weighted-average exercise price
	#	$	#	$
Outstanding, beginning of year	**483,200**	**3.22**	371,500	5.95
Granted	**265,000**	**6.67**	368,500	3.05
Exercised	**(253,800)**	**3.15**	(1,000)	3.00
Cancelled	**(158,100)**	**4.38**	(255,800)	6.88
Outstanding, end of year	**336,300**	**5.45**	483,200	3.22
Options exercisable at year-end	**165,566**	**7.45**	258,267	3.26

9. SHARE CAPITAL cont'd

The following table summarizes information about stock options outstanding at July 31, 2000.

	Options outstanding			Options exercisable		
	Number outstanding #	Weighted average contractual life	Weighted average exercise price $	Number outstanding #	Weighted average contractual life	Weighted average exercise price $
$3.00 - $5.00	**236,300**	**1.8 years**	**3.53**	**65,566**	**0.8 years**	**3.56**
$10.00	**100,000**	**1.5 years**	**10.00**	**100,000**	**1.5 years**	**10.00**
	336,300			**165,566**		

As consideration for the acquisition of another company in a prior year, the Company issued share purchase warrants to acquire 150,000 common shares for a period of five years at an exercise price of $15.00, if at the time of exercise the market price of the Company's common shares is $22.50 or less. If the market price exceeds $22.50 at the time the share purchase warrants are exercised, the exercise price will be $15.00 plus the amount by which the market price exceeds $22.50. The share purchase warrants expire on August 12, 2001. As at July 31, 2000, no warrants have been exercised. The value attributed to the share purchase warrants was based on the estimated fair market value of the net assets acquired.

On March 26, 1998 and August 24, 1999, the Company entered into Normal Course Issuer Bids to repurchase up to 356,212 and 370,591, respectively, of its common shares, representing approximately 5% of the common shares then outstanding. In fiscal 2000, no shares were repurchased. In fiscal 1999, 8,200 shares were repurchased at a cost of $24,846. The excess of cost over the weighted average stated capital of these shares was charged to retained earnings.

10. INCOME TAXES

The effective rates of income taxes provided for (recovered) in the consolidated statements of income vary from the statutory tax rates as follows:

	2000 %	1999 %
Combined basic Canadian federal and provincial rate	**44.6**	44.6
Reduction due to income taxed in United States	**(1.1)**	(0.2)
Utilization of previously unrecognized income tax losses	**(30.5)**	(5.7)
Non-taxable permanent differences	**(4.4)**	—
Benefit of tax losses not recognized	**4.4**	—
Other	—	0.1
Effective income tax rate	**13.0**	38.8

Income tax benefits in the amounts of $1,993,000 and $311,600 not previously recognized were utilized to reduce taxes otherwise payable for 2000 and 1999, respectively.

The Company has tax losses in excess of $18,000,000 [1999 -$22,000,000] related to the Sidus acquisition, which are available to reduce income taxes in future years. These losses will expire in the 2003 and 2004 taxation years, if not otherwise utilized.

11. EARNINGS PER SHARE

Earnings per share has been calculated based on the weighted average number of shares outstanding during the years ended July 31, 2000 and 1999.

The weighted average number of shares outstanding for the year was 7,576,578 [7,306,563 - 1999] shares.

The effect of the exercise of stock options and share purchase warrants was anti-dilutive for fiscal 1999.

12. ACQUISITIONS AND DIVESTITURES

Fiscal 1999

On April 1, 1999, the Company purchased 100% of the outstanding common shares of Sidus Systems Inc. ["Sidus"], a company which had filed for protection under the Companies' Creditors Arrangement Act on January 20, 1999. The results of operations are included in the consolidated statements of income and retained earnings from the date of acquisition. The acquisition was financed by way of a note payable of $1,600,000 and through the exchange of one common share of the Company for each 50 common shares of Sidus. The note payable was non-interest bearing, due and paid on August 3, 1999. In connection with the acquisition, the Company advanced an amount of $400,000 to the Monitor. This amount plus accrued interest of approximately $17,000 was repaid on August 3, 1999.

($000s)	
Income tax benefit acquired	**2,812**
Obligations assumed	**(500)**
	2,312
Transaction costs	**182**
Common shares exchanged	**530**
Note payable issued	**1,600**
	2,312

On November 1, 1998, the Company sold the intangible assets of its U.S. Internet division to a company in which it retained a 19.9% interest. Consideration consisted of a promissory note in the amount of $100,000 U.S., bearing interest at an effective annual rate of 10.4% and due November 1, 2003. The gain on disposition in the amount of $100,000 U.S. will be recognized when cash is received. The Company has also entered into an agreement to provide management services to the purchaser.

13. CASH FLOWS

Net change in non-cash working capital components consists of:

($000s)	2000	1999
(Increase) in trade and other receivables	**(1,233)**	(4,712)
(Increase) in inventories	**(13,675)**	(84)
Decrease (increase) in prepaid expenses	**337**	(240)
Decrease in income taxes recoverable	**—**	544
Decrease in benefits from tax losses	**566**	625
(Decrease) increase in accounts payable	**(1,580)**	690
(Decrease) increase in income taxes payable	**(689)**	1,120
	(16,274)	(2,057)

Cash paid for:

($000s)	2000	1999
Interest	**1,199**	1,092
Income taxes	**1,514**	335

14. COMMITMENTS

The Company is committed to make future minimum annual lease payments, in accordance with the terms of operating leases, with respect to certain premises as follows:

($000s)	
2001	**192**
2002	**40**
	232

15. SEGMENT INFORMATION

The Company principally operates in a single industry segment, the wholesale distribution of computer products. Approximately 89% [84% - 1999] and 11% [16% - 1999] of the Company's capital assets are located in Canada and the United States, respectively. Revenues from external customers are attributed to countries based on the location of the customers and are distributed as follows:

($000s)	2000	1999
Canada	**153,518**	150,747
United States	**12,847**	11,622
	166,365	162,369

EMJ's Number One Asset - Its Employees

Pictured above are some of EMJ's employees with 10 or more years of experience with the Company. These employees work in a wide range of departments, including sales, technical support, purchasing, accounting, and more.

Dedication:

EMJ's staff is a team of knowledgeable industry veterans who have grown with the company.

"I am proud to say that I have been with EMJ Data for **15 years**, it seems a little unusual when I speak to other people in the industry who have similar experience, but have worked for 6 different companies. I find that we work in an environment that is stable yet constantly challenging and learning of new technologies, that is what motivates me to work for EMJ".

Jim Clifford, Sales Branch Manager,
EMJ's Richmond, BC office.

"Happiness at work is being passionate about what you do and I have been doing it at EMJ for **15 years**".

Pam Hughes, Executive Assistant,
EMJ's head office in Guelph, Ontario.

"I have been with EMJ for **12 years**, EMJ has been more than an employer - they have been a family that has always looked after me as if I were a family member of theirs. Working with the Estills has been very rewarding and my career has truly flourished working for EMJ. I look forward to another 12 years or more with EMJ".

Al Zaste, Sales Branch Manager,
EMJ's Calgary, AB office.

"I have been with EMJ for **4 years** now. I find they are a fair and flexible employer. They teach us well by example how to treat our customers. I can always go home with a clear conscience. I look forward to many more years with EMJ".

Carmen Millen, Sales Representative,
EMJ's Calgary, AB office.

"In over **10 years** as the Customer Service Manager, I like to gain the trust of our customers and we as a department deliver exceptional customer service. We work as a team and we have fun".

Christine Holford,
Customer Service Manager,
EMJ's head office in Guelph, Ontario.

"It is great to work at a place where close to 25% of the staff have been here for **10 years** or more. That tells you a lot about the company and the other employees".

Mike Hall,
Freight /Manufacturing Supervisor,
EMJ's head office in Guelph, Ontario.

"In the **9 years** I've been at EMJ I have always felt like I was working in a complete team atmosphere where every person had a direct impact on the company's results. Not many companies can truly say that. That is just one of the reasons I enjoy working here".

Alex Thomas, Inventory Control,
EMJ's head office in Guelph, Ontario.

"I have been an employee and shareholder of EMJ for more than **13 years** and I am very proud to have helped contribute to its growth and prosperity".

Christie Greeley, Credit Manager,
EMJ's head office in Guelph, Ontario.

Corporate Directory

Board of Directors:

James A. Estill (2)
President and
Chief Executive Officer,
EMJ Data Systems Ltd.

Glen R. Estill (1)
Vice President and
Chief Financial Officer,
EMJ Data Systems Ltd.

Frank J. Hasenfratz (2)
Chief Executive Officer,
Linamar Corporation

Douglas R. Peel (1) (2)
Managing Partner
Kilmer Capital Partners Limited

W. David Petras (1)
Partner, Technology Law Group,
Gowling Lafleur Henderson LLP

(1) Member of the Audit Committee
(2) Member of the Compensation Committee

Officers:

James A. Estill
President and
Chief Executive Officer

Glen R. Estill
Vice President and
Chief Financial Officer

Alexandra E. Klein
Vice President, Purchasing

Rosemary C. Langel
Vice President, Finance,
Corporate Secretary and Controller

J. Raymond Soucy
Vice President, Sales and
Product Management

Shareholder Information:

Stock Listing:
The **Toronto Stock Exchange**
Symbol: EMJ

Transfer Agent and Registrar:
Computershare Investor Services, Inc.

Annual Meeting:
November 23, 2000
5:30 p.m.

EMJ Data Systems Ltd.
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Kitchener, ON

Bank:
Royal Bank of Canada
Guelph, ON

Websites:
www.emj.ca *and*
www.emj.com *(EMJ America)*

For more information:
contact **Jim Estill**
at (519) 837-2444 Ext. 213,
E-mail: jestill@emj.ca

EMJ'S MISSION STATEMENT:

Our Vision: EMJ Data Systems Ltd. – the active niche computer distributor.

Our Commitment: To continually seek better ways to help our customers and suppliers thrive by providing: market insights, leading edge products, top quality technical information and support, renowned customer service, practical solutions - from product selection to financing options and instant shipping.

Our Values: We value:

Staff - we strive to be an outstanding, caring employer, providing a safe, fair and respectful place for people to be the best they can be. Our stable, long term workforce improves our knowledge and service.

Customers - we understand their needs and help them to be profitable.

Performance - we act quickly and diligently while providing a high standard of quality.

Community - we support the communities in which we are located.

Reputation - EMJ has unyielding integrity.

Innovation and Change - we embrace it and profit from it.

Technical Knowledge - EMJ has a keen understanding of technology that helps our suppliers and customers sell.

Growth - it inspires our staff, suppliers and our shareholders.

Work Ethic - at EMJ we work hard for our customers and suppliers.

EMJ ADDRESSES

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